

INVESTMENT SECTOR PROGRAM

(EC-0194)

EXECUTIVE SUMMARY

Borrower:	Republic of Ecuador		
Executing agency:	Ministry of Economy and Finance		
Amount and source:	IDB: (OC)	US\$	150 million
	Total:	US\$	150 million
Financial terms and conditions:	Amortization Period:	20	Years
	Grace Period:	5	Years
	Disbursement Period:	18	Months
	Interest Rate:	variable	
	Supervision and Inspection:	1.00	%
	Credit Fee:	0.75	%
	Currency:	U.S. Dollars from the Single Currency Facility	
Objectives:	<p>The proposed Investment Sector Program is intended to support the Government of Ecuador’s (GOE) macroeconomic stabilization program, and its development objective to establish and consolidate an enabling environment to promote the participation of the private sector in the economy and begin the resolution of intervened financial institutions while protecting the social groups most vulnerable to the adjustment process.</p>		
Description:	<p>In addition to compliance with the macroeconomic stabilization program agreed with the International Monetary Fund, the program includes the following components: i) private sector participation in infrastructure; ii) resolution of intervened financial institutions; and iii) social protection. These components are at the centerpiece of the GOE’s macroeconomic program.</p>		
	<p>The private sector participation in infrastructure component supports measures intended to provide the groundwork for a private-sector-led rehabilitation and expansion of the power and telecommunications sectors while at the same time substantially</p>		

reducing the need for public investments in these sectors. It also includes measures intended to promote a transparent and objective privatization process in the power sector.

Policy conditions under the component for the resolution of intervened financial institutions, a key element of the GOE financial restructuring strategy agreed upon with all international financial institutions, focus on short-term measures to facilitate and accelerate an effective and transparent resolution of intervened institutions, which currently make up about half of the system's assets. In particular, the program supports the contracting of first-rate private management under performance-based contracts to administer and liquidate the assets of closed banks and to restructure open institutions to prepare them for reprivatization.

The social protection component supports policy measures to protect key social services that benefit the poor from further erosion, and improve the capacity for allocating and using resources in the social sectors efficiently; improve targeting of key social programs to the poor and strengthen the safety net; and supplement the purchasing power of the poor.

The program is supported by a fast-disbursing operation in an amount of US\$150 million, designed in two tranches of US\$60 million each--programmed ex-ante to be fulfilled in a period of six months after Board approval--; and one floating tranche of US\$30 million supporting the establishment of a transparent and objective process for private sector participation in the power sector. The expected disbursement period is 18 months.

Program implementation will be carried out in close coordination with lending programs by the World Bank and the Andean Development Corporation, and the IMF Stand-by program approved in April 2000.

**Bank's country
and sector
strategy:**

The proposed program is consistent with the Bank's country strategy since it supports the Government's macroeconomic stabilization program, the participation of the private sector in the economy, financial sector measures and social protection of the most vulnerable groups. The program's components, which have been developed in the context of the Bank's specific sector strategies and in line with the country's macroeconomic stabilization program with the IMF, have benefited from continued Bank involvement in these sectors.

**Environmental
and social aspects:**

The program supports the establishment of the environmental regulatory framework applicable to the power sector. Environmental assessments of all 25-power companies will

complement this initiative and serve as the basis for defining the treatment of environmental aspects and related institutional arrangements. Additionally, resources from IDB Loan 1136/OC-EC have already been allocated for the institutional strengthening of the regulatory agency.

The program also supports policy measures to protect key basic social services that benefit the poorest groups of the population, and lay the basis for an effective social safety net. These measures are intended to protect these groups from the worst effects of the adjustment process.

Benefits:

The program has been designed to provide timely support for macroeconomic recovery and stabilization, and advance some relevant reforms to set the basis for restoring and sustaining economic growth. Progress on structural reforms, particularly an enhanced and effective private sector participation in the economy, and progress in the resolution of intervened financial institutions would support the implementation of the GOE's macroeconomic program.

The successful implementation of the social protection component is expected to restore an adequate level of spending in key social services and programs that serve the poor; support adequate funding levels or cash transfer programs designed to protect the incomes of the poor from further erosion and for investment projects that generate demand for unskilled labour; and allowing the country to enjoy a technical, transparent, objective, and uniform instrument for identifying and selecting individual beneficiaries for social programs based on the socioeconomic characteristics of all households.

Risks:

In addition to the political risks which include the potential for social unrest which may prevent the GOE from implementing stabilization and adjustment measures; and the fragility of the coalition that supports the reform program, the proposed program has the following risks: i) lack of progress in improving macroeconomic policy management and conditions; ii) slow reform implementation; and iii) weak institutional capacity.

Regarding the macroeconomic risk, the major risk of the program, the April agreement with the IMF on a stabilization program and the recent announcement of a package of economic reforms one month ahead of schedule underline the GOE's commitment to the reform process and help mitigate this risk.

The potential slow reform implementation risk has been mitigated by the recent enactment of the Economic Transformation Law,

which paves the way for most reforms and the close coordination among international financial institutions. With respect to institutional capacity, substantial available technical cooperation resources have already been allocated for supporting infrastructure and financial sector agencies to timely implement reforms

**Special
contractual
conditions:**

The policy matrix (Annex I), policy letter (Annex II) and action plan (Annex III) govern the conditions for the disbursement of each of the tranches.

**Poverty-targeting
and social sector
classification:**

This policy-based program is not considered to be poverty-targeted. Nevertheless, it supports specific measures to protect key basic social services that benefit the poorest groups of the population, and lay the basis for an effective social safety net. These measures are intended to protect these groups from the worst effects of the adjustment process, increasing the viability of the proposed reforms and the macroeconomic stabilization program.

**Exceptions to
Bank policy:**

None